

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

AQUA AMERICA INC
Form DEF 14A
April 02, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant / /
Filed by a Party other than the Registrant / /

Check the appropriate box:

- / / Preliminary Proxy Statement
- / / Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
- /X/ Definitive Proxy Statement
- / / Definitive Additional Materials
- / / Soliciting Material Under Rule 14a-12

AQUA AMERICA, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- /X/ No fee required
- / / Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

// Fee paid previously with preliminary materials.
// Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

AQUA AMERICA, INC.
(formerly PHILADELPHIA SUBURBAN CORPORATION)
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010

Notice of Annual Meeting of Shareholders
To Be Held May 20, 2004

TO THE SHAREHOLDERS OF
AQUA AMERICA, INC.:

Notice is hereby given that the Annual Meeting of Shareholders of AQUA AMERICA, INC. will be held at the Springfield Country Club, 400 West Sproul Road, Springfield, Pennsylvania 19064, at 10:00 A.M., local time, on Thursday, May 20, 2004, for the following purposes:

1. To elect three directors to the class of directors for terms expiring at the 2007 Annual Meeting;
2. To consider and act upon an Amendment to Aqua America, Inc.'s Articles of Incorporation increasing the authorized shares of Aqua America, Inc.'s Common Stock, par value \$.50 per share, from 100,000,000 shares to 300,000,000 shares;
3. To approve the 2004 Equity Compensation Plan; and
4. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only shareholders of record at the close of business on March 29, 2004 will be entitled to notice of, and to vote at, the Annual Meeting and at any adjournments thereof.

By order of the Board of Directors,

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

ROY H. STAHL
Secretary

April 9, 2004

REGARDLESS OF WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, AS A SHAREHOLDER YOU ARE URGED TO COMPLETE, SIGN AND RETURN THE ENCLOSED PROXY CARD IN THE ENVELOPE PROVIDED, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES, OR VOTE ELECTRONICALLY, THROUGH THE INTERNET OR BY TELEPHONE, BY FOLLOWING THE INSTRUCTIONS SET OUT ON THE PROXY CARD.

AQUA AMERICA, INC.
(formerly PHILADELPHIA SUBURBAN CORPORATION)
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Aqua America, Inc. ("Aqua America" or the "Company") to be used at the Annual Meeting of Shareholders to be held Thursday, May 20, 2004 and at any adjournments thereof. This proxy statement and the enclosed proxy are being mailed to shareholders on or about April 9, 2004.

The cost of soliciting proxies will be paid by the Company, which has arranged for reimbursement, at the rate suggested by the New York Stock Exchange, of brokerage houses, nominees, custodians and fiduciaries for the forwarding of proxy materials to the beneficial owners of shares held of record. In addition, the Company has retained The Altman Group, to assist in the solicitation of proxies from (i) brokers, bank nominees and other institutional holders, and (ii) individual holders of record. The fee to The Altman Group for normal proxy solicitation is \$4,000 plus expenses, which will be paid by the Company. Directors, officers and regular employees of the Company may also solicit proxies, although no additional compensation will be paid by the Company for such efforts.

The proxy statement and Annual Report to Shareholders for the year ended December 31, 2003, including financial statements and other information with respect to the Company and its subsidiaries, are being mailed by standard mail, to shareholders of record as of March 29, 2004. The proxy statement and Annual Report are being sent electronically to those shareholders of record as of March 29, 2004 who requested electronic delivery of these materials. Additional copies of the Annual Report may be obtained by writing to the Company.

PURPOSE OF THE MEETING

As the meeting is the Annual Meeting of Shareholders, the shareholders of the Company will be requested to: (1) elect three directors to hold office as provided by law and the Company's Bylaws; (2) approve the adoption by the Board of Directors of an Amendment to Aqua America, Inc.'s Articles of Incorporation increasing the authorized shares of Aqua America's Common Stock from 100,000,000 shares to 300,000,000 shares; and (3) approve the 2004 Equity Compensation Plan.

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

VOTING AT THE MEETING

Holders of shares of the Company's Common Stock of record at the close of business on March 29, 2004 are entitled to vote at the meeting. As of that date, there were 92,828,436 shares of Common Stock outstanding and entitled to be voted at the meeting. Each shareholder entitled to vote shall have the right to one vote on each matter presented at the meeting for each share of Common Stock outstanding in such shareholder's name.

1

The holders of a majority of the shares entitled to vote, present in person or represented by proxy at the meeting, constitute a quorum. Directors are to be elected by a plurality of the votes cast at the meeting. The affirmative vote of a majority of the votes cast by those shareholders present in person or represented by proxy at the meeting is required for approval of Proposal No. 2 and Proposal No. 3, or to take action with respect to any other matter that may properly be brought before the meeting. Shares cannot be voted at the meeting unless the holder of record is present in person or by proxy. The enclosed proxy card is a means by which a shareholder may authorize the voting of his or her shares at the meeting if they are unable to attend in person. Alternatively, under the Pennsylvania Business Corporation Law and the Pennsylvania Electronic Transaction Act, you may vote electronically, over the Internet or by telephone, following the instructions set out on the proxy card. The shares of Common Stock represented by each properly executed proxy card or electronic proxy will be voted at the meeting in accordance with each shareholder's direction. Shareholders are urged to specify their choices by marking the appropriate boxes on the enclosed proxy card or electronic proxy; if the proxy card or electronic proxy is signed, but no choice has been specified, the shares will be voted as recommended by the Board of Directors. If any other matters are properly presented to the meeting for action, the proxy holders will vote the proxies (which confer discretionary authority to vote on such matters) in accordance with their best judgment.

With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect, other than for purposes of determining the presence of a quorum. Abstentions may not be specified for the election of directors. Abstentions on Proposal No. 2 and Proposal No. 3 will be counted for purposes of determining whether there is a quorum, but will not be counted for purposes of determining the aggregate number of votes cast. Brokers that are member firms of the New York Stock Exchange ("NYSE") and who hold shares in street name for customers, but have not received instructions from a beneficial owner, have the authority under the rules of the NYSE to vote those shares with respect to the election of directors, but not for Proposal No. 2, Proposal No. 3 or for any other matter. Accordingly, abstentions and broker non-votes will have no effect on the vote on Proposal No. 2 or Proposal No. 3. Proxies received from brokers with respect to shares held in street name, even if such shares are not voted by brokers, will be considered present and entitled to vote at the meeting.

Execution of the accompanying proxy or voting electronically will not affect a shareholder's right to attend the meeting and vote in person. Any shareholder giving a proxy or voting electronically has the right to revoke the proxy or the electronic vote by giving written notice of revocation to the Secretary of the Company at any time before the proxy is voted by executing a proxy bearing a later date, which is voted at the meeting, or by attending the meeting and voting in person.

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Your proxy vote is important. Accordingly, you are asked to complete, sign and return the accompanying proxy card or vote electronically regardless of whether or not you plan to attend the meeting.

(Proposal No. 1) ELECTION OF DIRECTORS

Voting on Proposal No. 1

The Board of Directors is divided into three classes. One class is elected each year to hold office for a three-year term and until successors of such class are duly elected and qualified, except in the event of death,

2

resignation or removal. The Company is required by its Amended and Restated Articles of Incorporation and Bylaws to maintain the size of its classes of directors as nearly equal in number as possible.

In accordance with the Board of Directors' Corporate Governance Guidelines, Mr. DiBona, Chairman of the Corporate Governance Committee spoke with each of the directors with terms expiring at the 2004 Annual Meeting of Shareholders to discuss nominating the director for re-election to another term. Following these discussions, Mr. DiBona reported to the Corporate Governance Committee that Mr. Smoot would be willing to serve on the Board of Directors for an additional three-year term and that, in accordance with prior discussions with Mr. Hirsig, he would continue to serve on the Board of Directors through the end of his current term that ends at the 2004 Annual Meeting of Shareholders. The Corporate Governance Committee considered possible candidates for nomination to be elected at the 2004 Annual Meeting of Shareholders. Mr. DiBona proposed for the Committee's consideration, William Hankowsky, Chairman, President and Chief Executive Officer of Liberty Property Trust. After reviewing Mr. Hankowsky's qualifications and experience, the Corporate Governance Committee unanimously voted to recommend him to the Board of Directors as a nominee for election at the 2004 Annual Meeting of Shareholders. The Committee noted that both Mr. Menario and Mr. McCaughan would reach the Company's retirement age for directors of 70 in 2005. In light of the valuable service of Mr. Menario and Mr. McCaughan as members of the Board of Directors, the Committee recommended to the Board of Directors that both Mr. Menario and Mr. McCaughan serve through the end of calendar year 2005 and both directors have agreed to so serve. In view of the foregoing and in accordance with the requirements of the Company's Articles of Incorporation to maintain the size of the classes of directors as nearly equal as possible, the Committee recommended and the Board of Directors at its March 2, 2004 meeting approved the simultaneous: (i) expansion of the class of directors to be elected at the 2004 Annual Meeting by one; (ii) election of Mr. Menario, who was a member of the class of directors with terms expiring at the 2005 Annual Meeting of Shareholders to the class of directors with terms expiring at the 2004 Annual Meeting of Shareholders; and (iii) reduction in the class of directors with terms expiring at the 2005 Annual Meeting of Shareholders by one. The Board of Directors also voted to approve the nomination of Mr. Richard L. Smoot, Mr. John E. Menario and Mr. William Hankowsky for election to the class of directors to be elected at the 2004 Annual Meeting of Shareholders.

Therefore, two existing directors, Mr. Smoot and Mr. Menario, and one new director nominee, Mr. Hankowsky, will stand for election by a plurality of the votes cast at the 2004 Annual Meeting, and five directors will continue to serve until either the 2005 or 2006 Annual Meetings, depending on the period remaining in their terms. At the 2004 Annual Meeting, proxies in the accompanying form, properly executed, will be voted for the election of the

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

three nominees listed below, unless authority to do so has been withheld in the manner specified in the instructions on the proxy card. Discretionary authority is reserved to cast votes for the election of a substitute should any nominee be unable or unwilling to serve as a director. Each nominee has stated his willingness to serve and the Company believes that each nominee will be available to serve.

The Board of Directors recommends that the shareholders vote FOR the election of Messrs. Smoot, Menario and Hankowsky as directors.

3

Information Regarding Nominees and Directors

For each of the three nominees for election as directors at the 2004 Annual Meeting and the five directors in the classes of directors whose terms of office are to expire either at the 2005 Annual Meeting or the 2006 Annual Meeting, as set forth herein, there follows information as to the positions and offices with the Company held by each, the principal occupation of each during the past five years, and certain directorships of public companies and other organizations held by each.

NOMINEES FOR ELECTION AT ANNUAL MEETING

Richard L. Smoot.... In 2002, Mr. Smoot retired as Regional Chairman Advisory Board Philadelphia and Southern New Jersey, The PNC Radnor, PA Financial Services Group, a position he held since 2001. Director since 1997 He continues to be a member of the PNC Advisory Board. From 1991 through 2000, Mr. Smoot served as President and Chief Executive Officer of PNC Bank in Philadelphia and Southern New Jersey, and its predecessor, Provident National Bank. He also served as Executive Vice President responsible for Operations and Data Processing for the Bank from 1987 to 1991. Before joining PNC Bank in 1987, Mr. Smoot served 10 years as First Vice President and Chief Operating Officer of the Federal Reserve Bank of Philadelphia. Mr. Smoot is Chairman of The Philadelphia Orchestra and The Settlement Music School. Mr. Smoot is also a director of P.H. Glatfelter Company and Southco Inc. Age: 63.

William P. Hankowsky.. Mr. Hankowsky has been Chairman, President and Chief Philadelphia, PA Executive Officer of Liberty Property Trust, a fully Nominee for Director integrated real estate firm, since 2001. Mr. Hankowsky joined Liberty in 2001 as Executive Vice President and Chief Investment Officer. Prior to joining Liberty, he served for 11 years as President of the Philadelphia Industrial Development Corporation. Prior to that, he was Commerce Director for the City of Philadelphia. Mr. Hankowsky serves on various charitable and civic boards, including the Philadelphia Convention and Visitors Bureau, the Academy of Music of Philadelphia and the Kimmel Regional Performing Arts Center. Age: 52.

John E. Menario..... In 2003, Mr. Menario retired as Assistant to the

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Portland, ME
Director since 1999

President of Banknorth Group, Inc., a position he held since 1996. He served as Senior Executive Vice President and Chief Operating Officer of Peoples Heritage Financial Group, Inc., from 1990 to 1996. Mr. Menario is also a director of Banknorth Insurance Group. Age: 68.

4

DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2005

G. Fred DiBona, Jr.....
Villanova, PA
Director since 1993

Mr. DiBona has served since 1990 as President and Chief Executive Officer of Independence Blue Cross, the Delaware Valley region's largest health insurer. He also serves as Chairman, President and Chief Executive Officer of most of Independence Blue Cross' subsidiaries and affiliates. Between 1987 and 1990, Mr. DiBona served as President and Chief Executive Officer for Pennsylvania Blue Shield's holding company, Keystone Ventures, Inc. Mr. DiBona is also a director of Independence Blue Cross and its subsidiaries, The GEO Group, Inc., Exelon Corporation, Tasty Baking Company, Eclipsys Corporation, Crown Holdings, Inc. and various civic and charitable organizations. Age: 53.

Mary C. Carroll
Bryn Mawr, PA
Director since 1981

Ms. Carroll is a consultant, and an advisor to nonprofit corporations, businesses and government agencies and is a recognized civic volunteer. She is the Honorary Trade Representative of Nepal for the U.S. and Chairman of the Nepal Foundation. She is a founder, director or trustee of various civic and charitable organizations, including the YMCA of Philadelphia and Vicinity and the National Parks Mid-Atlantic Council. Age: 63.

DIRECTORS CONTINUING IN OFFICE WITH TERMS EXPIRING IN 2006

John F. McCaughan
Doylestown, PA
Director since 1984

In 1998, Mr. McCaughan retired as President of the BetzDearborn, Inc. Foundation, having served in that capacity since 1995. From 1995 to 1996, Mr. McCaughan was Chairman of Betz Laboratories, Inc., which provides engineered chemical treatment of water, wastewater and process systems. Mr. McCaughan was Chairman and Chief Executive Officer of Betz Laboratories from 1982 to 1994. He is also a director of Penn Mutual Life Insurance Company, Petroferm, Inc. and numerous charitable organizations. Age: 68.

Richard H. Glanton, Esq...

Mr. Glanton is Senior Vice President of Corporate

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Philadelphia, PA
Director since 1995

Development at Exelon Corporation. From 1986 to 2003 was a partner in the law firm of Reed Smith LLP in Philadelphia. Mr. Glanton is a director of The GEO Group, Inc. Age: 57.

5

Nicholas DeBenedictis.....
Ardmore, PA
Director since 1992

Mr. DeBenedictis has served as Chief Executive Officer of the Company since July 1992 and Chairman of the Board since May 1993. He also serves as Chairman and Chief Executive Officer of the Company's principal subsidiaries, including Aqua Pennsylvania, Inc. Between April 1989 and June 1992, he served as Senior Vice President for Corporate Affairs of PECO Energy Company (now known as Exelon). From December 1986 to April 1989, he served as President of the Greater Philadelphia Chamber of Commerce and from 1983 to 1986 he served as the Secretary of the Pennsylvania Department of Environmental Resources. Mr. DeBenedictis is a director of Exelon Corporation, P.H. Glatfelter Company and Met-Pro Corporation and a member of the advisory boards of PNC Bank in Philadelphia and Southern New Jersey and Pennoni Associates. He also serves on the Board of the Greater Philadelphia Chamber of Commerce, the Pennsylvania Business Roundtable, and Hahnemann/MCP University and is a Trustee of Drexel University. Age: 58.

CORPORATE GOVERNANCE

The Board of Directors operates pursuant to a set of written Corporate Governance Guidelines. Copies of these Guidelines can be obtained free of charge from the Corporate Governance portion of the Investor Relations section of the Company's website -- www.aquaamerica.com or by contacting the Company at the address appearing on the first page of this proxy statement, attention Investor Relations Department. (See Additional Information on page 41).

Director Independence

The Board of Directors is, among other things, responsible for determining whether each of the directors is independent in light of any relationship each director may have with the Company. The Board of Directors has adopted the following standards for determining a director's independence, which are consistent with the listing standards of the New York Stock Exchange:

A director will not be deemed independent if, within the period prescribed by the New York Stock Exchange:

- o the director was employed by the Company;
- o someone in the director's immediate family was employed as an executive officer of the Company;
- o the director was employed by or affiliated with the Company's present or former internal auditors or outside independent auditors;

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

- o someone in the director's immediate family was employed or affiliated with the Company's present or former internal auditors or outside independent auditors in a professional capacity;

6

- o the director or someone in her/his immediate family was employed as an executive officer of another entity that concurrently has or had as a member of its compensation committee of the board of directors any of the Company's executive officers; or
- o the director received, or someone in the director's immediate family received, more than \$100,000 per year (i.e., during any twelve month period) in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) and, in the case of an immediate family member, other than compensation for service as a non-executive employee of the Company;
- o the director was an executive officer or employee, or someone in her/his immediate family was an executive officer of, another company that made payments to, or received payments from, the Company for property or services in an amount which, in any single fiscal year of the other company, exceeded \$1 million or two percent, whichever is greater, of the other company's consolidated gross revenues; or
- o the director served as an executive officer of a charitable organization, and the Company made charitable contributions to the charitable organization in any single fiscal year of the charitable organization that exceeded \$1 million or two percent, whichever is greater, of the charitable organization's consolidated gross revenues.

These standards are set forth in the Company's Corporate Governance Guidelines.

Based on a review applying these standards, the Board of Directors has affirmatively determined that each of the Company's directors, other than the Chief Executive Officer, Mr. DeBenedictis, is independent and that none of the directors, other than Mr. DeBenedictis, has a material relationship with the Company.

The Board of Directors has appointed Mr. DiBona, in his capacity as Chairman of the Corporate Governance Committee, as the presiding independent director. As the presiding independent director, Mr. DiBona's responsibilities include: presiding at all meetings of the Board of Directors at which the Chairman is not present, including executive sessions of the independent directors; serving as liaison between the Chairman and the independent directors; approving information sent to the Board; approving meeting agendas for the Board; approving meeting schedules to assure that there is sufficient time for discussion of all agenda items; calling meetings of the independent directors, if appropriate; and, if requested by major shareholders, ensuring that he is available for consultation and direct communications with such shareholders.

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Board Committees

The Board of Directors held six meetings in 2003. The Company's Bylaws provide that the Board of Directors, by resolution adopted by a majority of the whole Board, may designate an Executive Committee and one or more other committees, with each such committee to consist of two or more directors. The Board of Directors annually elects from its members the Executive, Audit, Executive Compensation and Employee Benefits, Corporate Governance, and Pension Committees. Each director attended at least 75% of the aggregate

7

of all meetings of the Board and the Committees on which they served in 2003. The Board of Directors encourages all directors to attend the Company's Annual Meeting of Shareholders. All the directors were in attendance at the 2003 Annual Meeting of Shareholders.

Executive Committee. The Company's Bylaws provide that the Executive Committee shall have and exercise all of the authority of the Board in the management of the business and affairs of the Company, with specific exceptions. The Executive Committee is intended to serve in the event that action by the Board of Directors is necessary or desirable between regular meetings of the Board, or at a time when convening a meeting of the entire Board is not practical, and to make recommendations to the entire Board with respect to various matters. The Executive Committee did not meet in 2003. The Executive Committee currently has five members, and the Chairman of the Company serves as Chairman of the Executive Committee.

Audit Committee. The Audit Committee is composed of three directors, whom the Board of Directors has affirmatively determined meet the standards of independence required of audit committee members by the New York Stock Exchange and applicable Securities and Exchange ("SEC") rules. Based on a review of the background and experience of the members of the Audit Committee, the Board of Directors has determined that all members of the Audit Committee are financially literate, and two members of the Committee, the Chairman of the Committee, Mr. Smoot, and Mr. Menario are audit committee financial experts within the meaning of applicable SEC rules. The Audit Committee was required to meet at least four times during the year and met six times during 2003. The Committee operates pursuant to a written charter, a copy of which is attached as Appendix A to this Proxy Statement. The primary responsibilities of the Audit Committee are to monitor the integrity of the Company's financial reporting process and systems of internal controls, including the review of the Company's annual audited financial statements, and to monitor the independence of the Company's independent accountants. The Audit Committee has the exclusive authority to select, evaluate and, where appropriate, replace the Company's independent accountants.

The Audit Committee has considered the extent and scope of non-audit services provided to the Company by its independent accountants and has determined that such services are compatible with the independent accountants maintaining their independence. For more information, see the Audit Committee Report on page 25.

Executive Compensation and Employee Benefits Committee. The Executive Compensation and Employee Benefits Committee is composed of three directors, whom the Board of Directors has affirmatively determined are independent directors. The Executive Compensation and Employee Benefits Committee has the power to administer and make awards of stock options, dividend equivalents and restricted stock under the Company's 1994 Equity Compensation Plan. In addition, the Executive Compensation and Employee Benefits Committee reviews the recommendations of the Company's Chief Executive Officer as to appropriate

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

compensation of the Company's officers (other than the Chief Executive Officer) and determines the compensation of such officers and the Company's Chief Executive Officer for the ensuing year. The Executive Compensation and Employee Benefits Committee held five meetings in 2003.

Corporate Governance Committee. The Corporate Governance Committee is composed of three directors, whom the Board of Directors has affirmatively determined are independent directors. The Corporate Governance Committee is responsible for identifying and considering qualified nominees for directors and developing and

8

periodically reviewing the Corporate Governance Guidelines by which the Board of Directors is organized and executes its responsibilities. In addition, the Chair of the Corporate Governance Committee conducts corporate governance discussions in executive sessions with the Board of Directors. The Corporate Governance Committee met twice during 2003.

The Corporate Governance Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and shareholders. In considering candidates for the Board, the Charter of the Corporate Governance Committee requires that the Committee consider the candidates' personal abilities and qualifications, independence and the diversity of their background, expertise and experience in fields and disciplines relevant to the Company. In addition, directors should have experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are affiliated and be selected based upon contributions that they can make to the Company. The Committee considers all of these qualities when selecting, subject to Board ratification, candidates for director.

Pension Committee. The Pension Committee serves as the Plan Administrator for the Company's qualified benefit plans. The Committee reviews and recommends to the Board any actions to be taken by the Board in the discharge of the Board's fiduciary responsibilities under the Company's qualified benefit plans and meets periodically with the Company's investment consultant. The Committee consists of three members and met two times in 2003.

Each of the Committees of the Board of Directors operates pursuant to a written Committee Charter. Copies of these Charters can be obtained free of charge from the Corporate Governance portion of the Investor Relations section of the Company's website - www.aquaamerica.com or by contacting the Company at the address appearing on the first page of this Proxy Statement to the attention of the Investor Relations Department.

The current members of the Committees of the Board of Directors are as follows:

Executive Committee

Nicholas DeBenedictis*
G. Fred DiBona, Jr.
John F. McCaughan
Richard L. Smoot
Richard H. Glanton, Esq.

Executive Compensation and
Employee Benefits Committee

John F. McCaughan*
G. Fred DiBona, Jr.
Alan R. Hirsig

Audit Committee

Richard L. Smoot*
John E. Menario
Alan R. Hirsig

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Pension Committee

Richard H. Glanton, Esq.*
Mary C. Carroll
Nicholas DeBenedictis

Corporate Governance
Committee

G. Fred DiBona, Jr.*
Richard H. Glanton, Esq.
Mary C. Carroll

* Chairman

9

(Proposal No. 2)

AMENDMENT TO AQUA AMERICA'S ARTICLES OF INCORPORATION TO
INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

Voting on Proposal No. 2

At the Aqua America Annual Meeting, there will be presented to shareholders a proposal to approve the Board of Directors' adoption of an Amendment to the Company's Articles of Incorporation increasing the authorized shares of the Company's Common Stock, par value \$.05 per share, from 100 million shares to 300 million shares. At its March 2, 2004 meeting, the Board of Directors unanimously approved the proposed Amendment to the Company's Articles of Incorporation increasing the authorized shares, subject to shareholder approval at the Aqua America Annual Meeting. The Amendment to the Articles of Incorporation will not be effective unless and until shareholder approval is obtained.

The text of the proposed Amendment to the Articles of Incorporation is set forth in Appendix B to this Proxy Statement.

Purposes and Effects

Under the Company's Articles of Incorporation, the Company has 100 million shares of Common Stock authorized to be issued. Without an increase to the Company's authorized shares, Aqua America would only be able to issue another 7 million shares in connection with acquisitions, financings, stock splits or other purposes for which the Company may from time to time issue shares of its Common Stock. The number of authorized shares of Aqua America's Common Stock was last increased from 40 million shares to 100 million shares in 1998 after approval by the shareholders.

Over the past twelve years, the number of Aqua America's shares of Common Stock outstanding has increased by over 85 million shares to approximately 93 million shares outstanding as of December 31, 2003. Of this increased number of shares outstanding, approximately 65% or 55 million shares were issued in connection with the five stock splits in the form of stock distributions authorized by the Board of Directors. Another 15% or 13 million shares were issued in connection with the Company's merger with Consumers Water Company in 1999 and 9% or 7.6 million shares were issued in connection with equity

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

financings by the Company.

Having additional shares of authorized stock available for issuance will give Aqua America greater flexibility in the event that additional shares are needed in connection with raising additional capital, possible acquisitions, stock distributions and stock splits and other corporate purposes. Aqua America has no present plans for any such stock dividend, acquisition or offering, but expects to continue to review acquisition opportunities as they may become available. If the recommended Amendment to the Articles of Incorporation is approved, the Aqua America Board of Directors will have the authority to issue the additional shares of Common Stock or any part thereof in an efficient manner, without the time constraints of requiring further action by the shareholders, except as required by applicable law or regulations. Future issuances of such shares could dilute existing

10

shareholders. The Aqua America Board of Directors believes that the availability of the additional shares of Common Stock for the purposes stated would be beneficial to the Company.

Vote Required for Approval

Approval of the Amendment to the Articles of Incorporation requires the affirmative vote of the majority of the votes cast by all shareholders of Aqua America Common Stock present in person or represented by proxy at the Annual Meeting. The holders of Aqua America Common Stock are entitled to one vote on all matters properly brought before the Aqua America Annual Meeting for each share of Aqua America Common Stock held by such persons. Votes may be cast in person at the Aqua America Annual Meeting or by proxy. A properly executed proxy marked "ABSTAIN," although counted for purposes of determining whether there is a quorum, will not be counted for purposes of determining the aggregate number of votes cast. Similarly, broker non-votes will also be counted for purposes of determining whether there is a quorum, but will not be counted for purposes of determining the aggregate number of votes cast. Accordingly, abstentions and broker non-votes will have no effect on the approval of Proposal No. 2.

The Board of Directors unanimously recommends a vote FOR approval of the Amendment to the Aqua America, Inc. Articles of Incorporation.

(Proposal No. 3)

APPROVAL OF 2004 EQUITY COMPENSATION PLAN

Voting on Proposal No. 3

At the Aqua America Annual Meeting, there will be presented to shareholders a proposal to approve and adopt the Aqua America, Inc. 2004 Equity Compensation Plan (the "Plan") under which 3,675,000 shares of the Company's Common Stock will initially be reserved for issuance. The Plan will be a successor plan to the Company's existing Amended and Restated Aqua America, Inc. (formerly Philadelphia Suburban Corporation) 1994 Equity Compensation Plan (the "1994 Plan") which will be frozen upon the approval of the Plan. The Plan is substantially similar to the 1994 Plan, as previously approved by the shareholders, and differs only as follows: (1) the Plan authorizes the Committee to designate certain pre-established performance goals specified within the terms of the Plan, the accomplishment of which will be required in order for restricted stock grants under the Plan to become vested for the grantee, (2) no more than fifty percent (50%) of the total shares authorized

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

for issuance under the Plan may be issued as restricted stock awards and (3) the expiration date for the Plan will be March 17, 2014. The Executive Committee of the Board of Directors unanimously approved the proposed Plan, subject to shareholder approval at their Annual Meeting. The Plan is effective on March 18, 2004, subject to approval of the shareholders.

The text of the proposed 2004 Equity Compensation Plan is set forth in Appendix C to this Proxy Statement.

11

Purposes and Effects

Under the 1994 Plan as presently existing, the Committee may grant restricted stock awards to key employees. Under the Plan, the Committee may also grant certain restricted stock awards, the vesting of which is conditioned upon the achievement of certain specified performance goals. In addition to increasing the performance standards in order for the executive to earn the long-term incentive, the new Plan will allow the Company to treat the restricted stock awards as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code. If this proposal is approved, the Plan will allow the Company to continue to provide key employees of the Company the opportunity to acquire a meaningful equity interest in the Company as an incentive for them to remain in service, while maintaining the Company's ability to deduct the full amount of the compensation paid to such Plan participants upon the achievement of the performance goals. The Board believes that such equity incentives are a significant factor in the Company's ability to attract and retain the key individuals who are essential to the Company's growth and financial success. Additionally, the Board believes that expanding the Company's exemption under Code Section 162(m) for performance-based compensation under the terms of the Plan, as proposed, is a financial benefit to the Company for the long-term.

Vote Required for Approval

Approval of the 2004 Equity Compensation Plan requires the affirmative vote of the majority of the votes cast by all shareholders of the Company's Common Stock. The holders of the Company's Common Stock are entitled to one vote on all matters properly brought before the Annual Meeting for each share of Common Stock held by such persons. Votes may be cast in person at the Annual Meeting or by proxy. A properly executed proxy marked "ABSTAIN," although counted for purposes of determining whether there is a quorum will not be counted for purposes of determining the aggregate number of votes cast. Similarly, broker non-votes will also be counted for purposes of determining whether there is a quorum, but will not be counted for purposes of determining the aggregate number of votes cast. Accordingly, abstentions and broker non-votes will have no effect on the approval of Proposal No. 3. Should such shareholder approval not be obtained, then the 2004 Equity Compensation Plan will not be implemented and no option grants or restricted stock awards will be made under the Plan. In the event such shareholder approval is obtained, no further stock option grants or restricted stock awards will be made under the 1994 Plan. In the event shareholder approval of the 2004 Equity Compensation Plan is not obtained, the 1994 Plan will continue under its current terms; however, restricted stock awards which are granted under the 1994 Plan will not qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code.

The Executive Committee on behalf of the Board of Directors unanimously recommends a vote FOR approval of the 2004 Equity Compensation Plan.

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Description of the 2004 Equity Compensation Plan

The description of the 2004 Equity Compensation Plan contained herein is qualified in its entirety by reference to the Plan document.

12

General. The purpose of the 2004 Equity Compensation Plan is to provide an incentive, in the form of a proprietary interest in the Company, to officers, other key employees and non-employee directors of the Company and its subsidiaries and key consultants, to increase their interest in the Company's welfare, and to provide a means through which the Company can attract and retain officers, other key employees and non-employee directors and key consultants of significant abilities. Subject to adjustment as described below, the maximum aggregate number of shares of the Common Stock of the Company that may be issued or transferred under the Plan shall be 3,675,000 shares; provided, however, that no more than 50% of these shares shall be available for issuance as restricted stock. The maximum number of shares of Common Stock that may be subject to grants made under the 2004 Equity Compensation Plan, to any individual during any calendar year is 150,000 shares. Shares of Common Stock related to the unexercised or undistributed portion of any terminated, expired or forfeited grant also may be made available for distribution in connection with future awards under the Plan. Additionally, if and to the extent stock options granted under the 1994 Plan terminate or expire without being exercised, or if any shares of restricted stock are forfeited, or shares of Common Stock otherwise issuable under the 1994 Plan are withheld by the Company in satisfaction of withholding taxes incurred in connection with the exercise of a stock option or vesting of a restricted stock award, the shares subject to such awards may be made available for distribution in connection with future awards under the Plan.

Administration of the Plan. The 2004 Equity Compensation Plan is administered and interpreted by a Committee of the Board (the "Committee") consisting of not less than three independent directors appointed by the Board from among its members. Under the terms of the 2004 Equity Compensation Plan, each of the members of the Committee may be "outside directors" as defined in Section 162(m) of the Code and shall also be "non-employee directors" as defined under Rule 16b-3 under the Exchange Act. The Committee has full power and authority to administer and interpret the 2004 Equity Compensation Plan, to make factual determinations and to adopt or amend such rules, regulations, agreements and instruments for implementing the 2004 Equity Compensation Plan and for conduct of its business as it deems necessary or advisable, in its sole discretion. The Committee or the Board, subject to the terms of the 2004 Equity Compensation Plan, in its sole discretion, may make grants under the 2004 Equity Compensation Plan to eligible officers and other key employees and key consultants. The Board may also ratify or approve grants made by the Committee if the Committee deems it appropriate in a particular circumstance. Non-employee directors are eligible to receive annual grants of 1,093 shares of restricted stock, subject to adjustment as provided under the 2004 Equity Compensation Plan. Reference to the Committee in the following paragraphs shall also mean the Board when acting under its authority to make, approve or ratify grants under the 2004 Equity Compensation Plan.

Grants. Incentives under the 2004 Equity Compensation Plan consist of incentive stock options, nonqualified stock options, restricted stock grants and dividend equivalents (hereinafter collectively referred to as "Grants"). All Grants are subject to the terms and conditions set forth in the 2004 Equity Compensation Plan and to those other terms and conditions consistent with the 2004 Equity Compensation Plan as the Committee deems appropriate and as are specified in writing by the Committee to the designated individual (the

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

"Agreement"). The Committee must approve the form and provisions of each Agreement.

13

Grants in Connection with Corporate Transactions and Otherwise. The 2004 Equity Compensation Plan, permits the Committee to make Grants under the 2004 Equity Compensation Plan in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation, firm or association, including Grants to employees thereof who become key employees of the Company or any of its subsidiaries, or for other proper corporate purposes. Without limiting the foregoing, the Committee may make a Grant to an employee of another corporation who becomes an employee of the Company or any of its subsidiaries by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company or any of its subsidiaries in substitution for a stock option or restricted stock grant made by such corporation. The terms and conditions of the substitute grants may vary from the terms and conditions required by the 2004 Equity Compensation Plan and from those of the substituted stock incentives. The Committee will prescribe the provisions of the substitute grants.

Eligibility for Participation. Officers and other key employees of the Company and key consultants are eligible to participate in the 2004 Equity Compensation Plan and non-employee directors are eligible to receive annual restricted stock grants under the 2004 Equity Compensation Plan (hereinafter referred to individually as the "Participant" and collectively as the "Participants"). The Committee or the Board may select the persons to receive Grants (the "Grantees") from among the Participants and determine the number of shares of common stock subject to a particular Grant. As of March 30, 2004, there were approximately 250 key employees, 7 non-employee directors and no consultants eligible to participate in the Plan.

Granting of Options. The Committee may grant options qualifying as incentive stock options ("ISOs") within the meaning of section 422 of the Code and/or nonqualified stock options ("NQSOs") in accordance with the terms and conditions set forth in the 2004 Equity Compensation Plan or any combination of ISOs or NQSOs (hereinafter referred to collectively as "Stock Options"). The Committee may grant only NQSOs to key consultants under the Plan.

Term, Purchase Price, Exercisability and Method of Exercise. The exercise price of Common Stock subject to an ISO or NQSO is the fair market value of such stock on the date the Stock Option is granted, except that the exercise price of an ISO granted to an employee who owns more than 10% of the total combined voting power of all classes of the stock of the Company or its subsidiaries may not be less than 110% of the fair market value of the underlying shares of Common Stock on the date of grant. On March 14, 2004, the fair market value of a share of Common Stock was \$20.66 per share.

The Committee determines the option exercise period for each Stock Option; provided, however, that the exercise period for an ISO may not exceed ten years from the date of grant and the exercise period for a NQSO may not exceed ten years and one day from the date of grant. In addition, the exercise period of an ISO granted to an employee who owns more than 10% of the total voting power of all outstanding stock of the Company or its subsidiaries may not exceed five years from the date of grant. The time when Stock Options become exercisable is determined by the Committee, in its sole discretion, and is specified in the Agreement. A Grantee may exercise a Stock Option by delivering a notice of exercise to the Committee with accompanying payment of the option price. The Grantee may pay the option price in cash, by delivering

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

shares of Common Stock already owned by the Grantee and having a fair market value on the last trading day prior to the date of exercise equal to the option

14

price or with a combination of cash and shares. The Grantee must pay the option price and the amount of any withholding tax due, if any, at the time of exercise. Shares of Common Stock are not to be issued or transferred upon exercise of the Stock Option until the option price and the withholding obligation are fully paid.

Restricted Stock Grants. The Committee may issue or transfer shares of Common Stock under a Grant (a "Restricted Stock Grant") pursuant to the 2004 Equity Compensation Plan to officers and other key employees. Shares of Common Stock issued pursuant to a Restricted Stock Grant may be issued for consideration or for no consideration, and the Committee grants to each Grantee a number of shares of Common Stock determined in its sole discretion. The total number of shares of Common Stock subject to Restricted Stock Grants under the 2004 Equity Compensation Plan, as amended and restated, is limited to a maximum of 50% of the total number of shares authorized for issuance under the Plan. If a Grantee's employment terminates during the period, if any, designated in the Agreement as the period during which the transfer of the shares is restricted (the "Restriction Period"), the Restricted Stock Grant terminates with respect to all shares covered by the Grant as to which the restrictions on transfer have not lapsed, and those shares of Common Stock must be immediately returned to the Company.

The 2004 Equity Compensation Plan authorizes the issuance of Restricted Stock Grants under which the lapsing of the Restriction Period is determined based on the achievement of certain performance goals. Subject to shareholder approval of 2004 Equity Compensation Plan, the Company anticipates that any compensation resulting from the lapse of restrictions on Restricted Stock Grants under the 2004 Equity Compensation Plan that are subject to the performance goals will qualify as performance-based compensation for purposes of Code Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation per covered individual on the deductibility of the compensation paid to certain executive officers of the Company. Accordingly, all compensation deemed paid with respect to those Restricted Stock Grants will remain deductible by the Company without limitation under Code Section 162(m).

Upon approval of the 2004 Equity Compensation Plan, the Committee may make Restricted Stock based upon the achievement of the following performance goals: (1) total return to shareholders; (2) dividends; (3) earnings per share; (4) customer growth; (5) cost reduction goals; (6) the achievement of specified operational goals, including water quality and the reliability of water supply; (7) measures of customer satisfaction; (8) net income (before or after taxes) or operating income, before or after non-recurring items; (9) earnings before interest, taxes, depreciation and amortization or operating income before depreciation and amortization; (10) revenue targets; (11) return on assets, capital or investment; (12) cash flow; (13) budget comparisons; (14) implementation or completion of projects or processes strategic or critical to the Company's business operations; and (15) any combination of, or a specified increase in, any of the foregoing. In addition, such performance goals may be based upon the attainment of specified levels of the Company's performance under one or more of the measures described above relative to the performance of other entities and may also be based on the performance of any of the Company's business units or divisions or any parent or subsidiary. Performance goals may be based upon the attainment of specified levels of the Company's performance under one or more of the measures described above during

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

a specified time period, which may differ from the Restriction Period. Performance goals may include a minimum threshold level of performance below which no award will be earned, levels of

15

performance at which specified portions of an award will be earned and a maximum level of performance at which an award will be fully earned. The Committee will not have discretion to increase the amount of compensation that is payable upon achievement of the designated performance goals, but the Committee may reduce the amount of compensation that is payable upon achievement of the designated performance goals.

Non-employee directors of the Company are entitled to receive grants of 1,093 shares of restricted stock each year on the first of the month following the annual meeting of shareholders. Shares granted to non-employee directors may not be sold for six months following the date of grant.

During the Restriction Period, a Grantee has all of the rights of a shareholder, including the right to vote and receive dividends, except that during the Restriction Period, a Grantee may not sell, assign, transfer, pledge or otherwise dispose of the shares of Common Stock to which such Restriction Period applies, except to a successor grantee in the event of the Grantee's death. All restrictions imposed under the Restricted Stock Grant lapse upon the expiration of the applicable Restriction Period. In addition, the Committee may determine as to any or all Restricted Stock Grants that all restrictions will lapse under such other circumstances as it deems equitable.

Non-Employee Director Grants. The 2004 Equity Compensation Plan provides that as of the first day of the month following the Company's annual meeting of shareholders, each non-employee director will receive a grant of 1,093 shares of Common Stock. Such shares shall not be sold for 6 months following the date of the grant. No other restrictions apply to such shares. Notwithstanding any other provision of the 2004 Equity Compensation Plan, this provision may not be amended more than once every 12 months, except for amendments necessary to conform the 2004 Equity Compensation Plan to changes of the provisions of, or the regulations relating to, the Code.

Dividend Equivalents. The Committee may grant dividend equivalents to officers and other key employees either alone or in conjunction with all or any part of any Stock Option granted under the 2004 Equity Compensation Plan. A dividend equivalent is equal to the dividend payable on a share of Common Stock of the Company. The Company will credit to an account maintained for the Grantee on its books and records an amount that is generally equal to the dividend equivalents subject to the Grant during the accumulation period designated by the Committee.

The amount of a dividend equivalent is determined by applying the following factors: (i) the number of dividend equivalents granted, (ii) the per-share cash dividend, or the per-share fair market value of any non-cash dividend, paid by the Company during the applicable accumulation period and (iii) the length of the applicable accumulation period designated by the Committee at the time of grant.

Generally, a Grantee will receive payment of a percentage of his dividend equivalents as specified by the Committee at the time of grant, at the end of the performance period established by the Committee at the time of the grant. A performance period will generally be four years, but may be as long as eight years or as short as two years from the date of grant, depending on the performance criteria established by the Committee at the time of the grant. A Grantee's dividend equivalents may be subject to more than one performance

period and more than one set of performance criteria.

16

Generally, no payments of dividend equivalents will be made before the end of the applicable performance period or periods or to any Grantee whose employment terminates before the end of the applicable performance period or periods for any reason other than retirement under the Company's or a subsidiary's retirement plan, death or total disability, unless the Committee, in its sole discretion, determines otherwise.

Payment of dividend equivalents, at the discretion of the Committee, may be made solely in cash, solely in credits to be applied toward payment of an exercisable related option or a combination of cash and such credits. A Grantee may also defer receipt of the payment of dividend equivalents, if he elects to do so on or before December 31 of the year preceding the beginning of the last full year of the applicable performance period.

Section 162(m). Under Section 162(m) of the Code, the Company may be precluded from claiming a federal income tax deduction for total remuneration in excess of \$1 million paid to the chief executive officer or to any of the other four most highly compensated officers in any one year. Total remuneration includes amounts received upon the exercise of stock options granted under the 2004 Equity Compensation Plan, amounts received in connection with dividend equivalents granted under the 2004 Equity Compensation Plan and the value of shares received when the shares of restricted stock became transferable (or such other time when income is recognized). An exception exists, however, for "qualified performance-based compensation." The 2004 Equity Compensation Plan, is intended to allow grants of stock options to meet the requirements of "qualified performance-based compensation." Stock options should generally meet the requirements of "qualified performance-based compensation," if the exercise price is at least equal to the fair market value of the Common Stock on the date of grant. In addition, restricted stock granted pursuant to the terms of the proposed 2004 Equity Compensation Plan, the vesting of which is conditioned upon the achievement of certain performance goals should also meet the requirements of "qualified performance-based compensation."

Transferability. Grants are generally not transferable by the participant, except in the event of death. However, the Plan provides that the Committee may grant NQSOs that allow the participant to transfer the NQSOs on such terms as the Committee deems appropriate.

Amendment and Termination of the 2004 Equity Compensation Plan. The 1994 Plan, originally approved by the shareholders of the Company on May 19, 1994, and re-approved on May 15, 2003 is scheduled to terminate on May 14, 2014. The Board may amend or terminate the 2004 Equity Compensation Plan at any time; provided, however, that the Board may not, without shareholder approval, make any amendment that requires shareholder approval pursuant to Section 422 or 162(m) of the Code. Unless sooner terminated by the Board, the proposed 2004 Equity Compensation Plan is scheduled to terminate on March 17, 2014, subject to the approval of this Proposal No. 3 by the shareholders.

Amendment and Termination of Outstanding Grants. An amendment of the 2004 Equity Compensation Plan that occurs after a Grant is made will not result in the amendment of the Grant unless the Grantee consents or unless the Committee revokes a Grant, the terms of which are contrary to applicable law. The termination of the 2004 Equity Compensation Plan will not impair the power and authority of the Committee with respect to outstanding Grants.

Adjustment Provisions; Change of Control of the Company. If there is any change in the number or kind of shares of Common Stock through the declaration of stock dividends, or through a recapitalization, stock split, or combinations or exchanges of such shares, or merger, recapitalization or consolidation of the Company, reclassification or change in the par value or by reason of any other extraordinary or unusual event, the number of shares of Common Stock available for Grants and the number of such shares covered by outstanding Grants, the price per share or the applicable market value of such Grants or the terms and conditions applicable to dividend equivalents will be proportionately adjusted by the Committee to reflect any increase or decrease in the number or kind of issued shares of Common Stock.

In the event of a Change of Control of the Company, (i) all outstanding Stock Options will become immediately exercisable, (ii) all restrictions on the transfer of shares with respect to a Restricted Stock Grant which have not, prior to such date, been forfeited will immediately lapse and (iii) all outstanding dividend equivalents which have not, prior to such date, been forfeited will become immediately payable, regardless of whether the applicable performance period has ended. A Change of Control of the Company will be deemed to have taken place with certain exceptions if (i) a person or group, other than the Company, one of its affiliates or one of its employee benefit plans acquires 20% or more of the Common Stock then outstanding or (ii) during any 24-month period, there is a change in the majority of the Board other than by approval of the Board immediately prior to such change.

Other Plan Provisions. A Grant under the 2004 Equity Compensation Plan will not be construed as conferring upon any Grantee a contract of employment or service, and such Grant will not confer upon the Grantee any rights upon termination of employment or service, other than certain limited rights as to the exercise of a Stock Option for a designated period of time following such termination.

Federal Income Tax Consequences. The current federal income tax treatment of grants under the 2004 Equity Compensation Plan is generally described below. Local and state tax authorities may also tax incentive compensation awarded under the 2004 Equity Compensation Plan, and tax laws are subject to change. Participants are urged to consult with their personal tax advisors concerning the application of the general principles discussed below to their own situations and the application of state and local tax laws.

Non-Qualified Stock Options. There are no federal income tax consequences to Grantees or to the Company upon the grant of an NQSO under the Equity Compensation Plan. Upon the exercise of NQSOs, Grantees will recognize ordinary compensation income in an amount equal to the excess of the fair market value of the shares at the time of exercise over the exercise price of the NQSO, and the Company generally will be entitled to a corresponding federal income tax deduction. Upon the sale of shares acquired by exercise of an NQSO, a Grantee will have a capital gain or loss in an amount equal to the difference between the amount realized upon the sale and the Grantee's adjusted tax basis in the shares (the exercise price plus the amount of ordinary income recognized by the Grantee at the time of exercise of the NQSO). The capital gain tax rate will depend on the length of time the shares were held and other factors.

Incentive Stock Options. Grantees will not be subject to federal income taxation upon the grant or exercise of ISOs granted under the 2004 Equity Compensation Plan, and the Company will not be entitled to a federal

income tax deduction by reason of such grant or exercise. However, the amount by which the fair market value of the shares at the time of exercise exceeds the Stock Option price (or the Grantee's other tax basis in the shares) is an item of tax preference subject to the alternative minimum tax applicable to the person exercising the ISO. A sale of shares acquired by exercise of an ISO that does not occur within one year after the exercise or within two years after the grant of the ISO generally will result in the recognition of capital gain or loss in the amount of the difference between the amount realized on the sale and the Stock Option price (or the Grantee's other tax basis in the shares), and the Company will not be entitled to any tax deduction in connection therewith. The capital gain tax rate will depend on the length of time the shares were held and other factors.

If such sale occurs within one year from the date of exercise of the ISO or within two years from the date of grant (a "disqualifying disposition") and is a transaction in which a loss, if sustained, would be recognized, the Grantee generally will recognize ordinary compensation income equal to the lesser of (i) the excess of the fair market value of the shares on the date of exercise over the exercise price (or the Grantee's other tax basis in the shares), or (ii) the excess of the amount realized on the sale of the shares over the exercise price (or the Grantee's other tax basis in the shares). In the case of a disqualifying disposition where a loss, if sustained, would not be recognized, the Grantee will recognize ordinary income equal to the excess of the fair market value of the shares on the date of exercise over the Stock Option price (or the Grantee's other tax basis in the shares). Any amount realized on a disqualifying disposition in excess of the amount treated as ordinary compensation income (or any loss realized) will be a capital gain (or loss). The capital gain tax rate will depend upon the length of time the shares were held and other factors. The Company generally will be entitled to a tax deduction on a disqualifying disposition corresponding to the ordinary compensation income recognized by the Grantee.

Generally, where previously acquired Common Stock is used to exercise an outstanding ISO or NQSO, appreciation on such stock will not be recognized as income. However, if such Common Stock was acquired pursuant to the exercise of an ISO, a disqualifying disposition will be deemed to have occurred if such stock is used to exercise another ISO prior to the expiration of the applicable holding periods.

Restricted Stock. A Grantee normally will not recognize taxable income upon the award of a Restricted Stock Grant, and the Company will not be entitled to a deduction, until such stock is transferable by the Grantee or no longer subject to a substantial risk of forfeiture for federal tax purposes, whichever occurs earlier. When the Common Stock is either transferable or is no longer subject to a substantial risk of forfeiture, the Grantee will recognize ordinary compensation income in an amount equal to the fair market value of the Common Stock at that time, less any consideration paid by the Grantee for such Restricted Stock, and the Company will be entitled to a deduction in the same amount. A Participant may, however, elect to recognize ordinary compensation income in the year the Restricted Stock Grant is awarded in an amount equal to the fair market value of the Common Stock at that time, determined without regard to the restrictions. In this event, the Company will be entitled to a deduction in the same year, provided the Company complies with the applicable withholding requirements for federal tax purposes. Any gain or loss recognized by the Grantee upon subsequent disposition of the Common Stock will be capital gain or loss. If, after making the election, any Common Stock subject to a Restricted Stock Grant is forfeited, or if the market value declines during the Restriction Period, the Grantee is not entitled to any tax deduction or tax refund.

Non-Employee Directors Grants. Restricted Stock Grants under the 2004 Equity Compensation Plan to non-employee directors will generally constitute taxable ordinary income to the director equal to the fair market value of the shares on the date of grant and the Company will be entitled to a tax deduction in the same amount. Any gain or loss recognized by the director upon subsequent disposition of the shares is a capital gain or loss and a long-term capital gain or loss if the directors have satisfied the applicable holding periods for the shares under the Code.

Dividend Equivalents. Generally, a Grantee will not recognize any income upon the grant of dividend equivalents and the Company will not be entitled to a deduction, until the Grantee receives payment of the dividend equivalent or the dividend equivalent payment is credited towards the exercise of a related Stock Option. At the time the dividend equivalent is paid to the Grantee or credited towards the exercise of a related Stock Option, the Grantee will recognize ordinary compensation income in the amount of the payment or credit and the Company will be entitled to a deduction in the same amount.

Section 162(m) of the Code. The Company's income tax deduction in any of the foregoing cases may be limited by the \$1 million limit of Section 162(m) of the Code if the Grant does not qualify as "qualified performance-based compensation" under Section 162(m) of the Code.

Tax Withholding. The acceptance, exercise or surrender of a Grant will constitute a Grantee's full consent to whatever action the Committee deems necessary to satisfy any federal, state and local income and employment withholding tax obligations arising under the 2004 Equity Compensation Plan. The Company may require Grantees who exercise NQSOs or who possess shares of Common Stock as to which the restrictions on transfer have lapsed to remit an amount sufficient to cover the Grantee's federal, state and local withholding tax obligations associated with the exercise of such Grants. Grantees, upon the receipt of shares following the exercise of ISOs, are obligated to (i) immediately notify the Company of the disposition of any or all ISO shares within two years of the date of grant of the ISO or one year of the date of such exercise, and (ii) remit to the Company an amount sufficient to satisfy any withholding obligation arising from such disposition. If acceptable to the Committee, Grantees may deliver Common Stock or cash in order to satisfy all such withholding obligations.

Summary of Benefits under the Plan

The proposed 2004 Equity Compensation Plan is substantially similar to the 1994 Equity Compensation Plan, as previously approved by the shareholders, and differs only in the following respects: (1) the addition of the ability of the Committee to grant restricted stock awards which are subject to restrictions which lapse upon the achievement of specified performance goals, thereby qualifying such awards as exempt from the \$1 million limitation on the deductibility of executive compensation, based on their status as "performance-based compensation", (2) no more than fifty percent (50%) of the total shares authorized for issuance under the Plan may be issued as restricted stock grants, and (3) an expiration date of March 17, 2014. The 2004 Equity Compensation Plan does not alter the considerations of the Committee with respect to grants under the 1994 Plan. For information with respect to grants to certain executive officers during the year ended under the 1994 Plan, see

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

the table captioned "Option Grants in Last Fiscal Year" on page 34 and for information with respect to grants to the Company's non-employee directors, see page 38.

New Plan Benefits. As of March 29, 2004, 26,500 shares of restricted stock have been granted under the 2004 Equity Compensation Plan, subject to shareholder approval of the 2004 Equity Compensation Plan. The table below sets forth the number of shares of restricted stock granted to executive officers of the Company under the 2004 Equity Compensation Plan, assuming shareholder approval of the Plan.

NEW PLAN BENEFITS
2004 EQUITY COMPENSATION PLAN

Name and Position (1)	Dollar Value (\$) (2)	Number of Units
Nicholas DeBenedictis Chief Executive Officer	334,080	16,000
Roy H. Stahl Exec. V.P. & Gen. Counsel	114,840	5,500
David P. Smeltzer Senior V.P.-Finance & CFO	83,520	4,000
Richard R. Riegler Senior V.P. Eng. & Environ. Aff.	20,880	1,000
Richard D. Hugus President - Southern Operations	-	-
Executive Officer Group	553,320	26,500
Non-Executive Director Group (3)	-	-
Nominees for Director	-	-
All Employees	-	-

(1) Only the indicated executive officers have received grants under the 2004 Equity Compensation Plan. Information with respect to these executive officers is provided in this table. Other benefits under the Plan are not determinable at this time, as awards are made from time to time in the discretion of a Committee of the Board of Directors.

(2) The dollar value of the restricted stock grants made under the 2004 Equity Compensation Plan is calculated on the closing price of the

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Company's Common Stock on the date of grant.

- (3) Non-executive directors are entitled to receive a grant of 1,093 shares of restricted stock under the Plan on the first day of the month following the annual meeting of shareholders. The dollar value of stock grants to non-executive directors is dependent on the fair market value of the Company's Common Stock on the date of grant and, therefore, cannot be determined at this time.

21

Securities Authorized for Issuance under Equity Compensation Plans

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (c)) (c)
Equity compensation plans approved by security holders	3,564,601	\$14.98	4,293,000
Equity compensation plans not approved by security holders	0	0	0
Total	3,564,601	\$14.98	4,293,000

22

OWNERSHIP OF COMMON STOCK

The following table sets forth certain information as of January 31, 2004 with respect to shares of Common Stock of the Company beneficially owned by each director, nominee for director and executive officer and by all directors, nominees and executive officers of the Company as a group. This information has been provided by each of the directors, executive officers and the nominee at the request of the Company. Beneficial ownership of securities as shown below has been determined in accordance with applicable guidelines

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

issued by the SEC. Beneficial ownership includes the possession, directly or indirectly, through any formal or informal arrangement, either individually or in a group, of voting power (which includes the power to vote, or to direct the voting of, such security) and/or investment power (which includes the power to dispose of, or to direct the disposition of, such security).

Beneficial Owner -----	Sole voting and/or sole investment power(1) -----	Shared voting and/or shared investment power -----	pe o
Mary C. Carroll	11,222	2,225 (3)	
Nicholas DeBenedictis	498,412	236,126 (4)	
G. Fred DiBona, Jr.	12,031	--	
Richard H. Glanton, Esq.	8,911	--	
William P. Hankowsky	--	--	
Alan R. Hirsig	11,612	--	
Richard D. Hugus	46,995	--	
John F. McCaughan	19,683	--	
John E. Menario	320	12,258 (5)	
Richard R. Riegler	107,995	15,304 (6)	
David P. Smeltzer	78,429	2,447	
Richard L. Smoot	7,578	--	
Roy H. Stahl	141,852	65,183	
All directors and executive officers as a group (12 persons)	945,040 (7)	333,543 (8)	

(1) Includes shares held under the Company's Thrift Plan.

(2) Percentages for each person or group are based on the aggregate of the shares of Common Stock outstanding as of March 1, 2004 (92,684,950 shares) and all shares issuable to such person or group upon the exercise of outstanding stock options exercisable within 60 days of that date. Percentage ownership of less than 1% of the class then outstanding as of March 1, 2004 has not been shown.

(3) The shareholdings indicated are owned of record by Mrs. Carroll's husband. Mrs. Carroll disclaims beneficial ownership of those shares.

(4) The shareholdings indicated include 1,964 shares owned of record by Mr. DeBenedictis' wife. Mr. DeBenedictis disclaims beneficial ownership of those shares.

23

(5) The shareholdings indicated include 96 shares owned of record by Mr. Menario's wife. Mr. Menario disclaims beneficial ownership of those shares.

(6) The shareholdings indicated include 15,304 shares owned of record by Mr. Riegler's wife. Mr. Riegler disclaims beneficial ownership of those shares.

(7) The shareholdings indicated include 586,528 shares exercisable under the 1994 Equity Compensation Plan on or before April 1, 2004.

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

- (8) The shareholdings indicated include 301,791 shares (i) held in joint ownership with spouses, (ii) held as custodian for minor children or (iii) owned by family members.

24

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report with management, including a discussion of the quality of the accounting principles, practices and judgments; the reasonableness of significant judgments; the clarity of disclosures in the financial statements; the integrity of the Company's financial reporting processes and controls; and the selection and evaluation of the independent accountants, including the review of all relationships between the independent accountants and the Company.

The Committee reviewed with the independent accountants, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles in the United States of America, their judgments as to the quality of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards (including Statement on Auditing Standards No. 61). In addition, the Committee has discussed with the independent accountants the accountants' independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board (including Independence Standards Board Standard No. 1), and considered the compatibility of non-audit services with the accountants' independence.

The Committee discussed with the Company's internal and independent accountants, the overall scope and plans for their respective audits. The Committee meets with the internal and independent accountants, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Committee held six (6) meetings during 2003.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board of Directors has approved, that the Company's audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2003 for filing with the SEC.

The Audit Committee has the authority to select, evaluate and, where appropriate, replace the Company's independent accountants. The Committee has selected PricewaterhouseCoopers LLP as the Company's independent accountants for the year ending December 31, 2004.

A copy of the Audit Committee's Charter is attached to this proxy statement as Appendix A.

Respectfully submitted,

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Richard L. Smoot
John E. Menario
Alan R. Hirsig

25

EXECUTIVE COMPENSATION

REPORT OF THE EXECUTIVE COMPENSATION AND EMPLOYEE BENEFITS COMMITTEE

Overall Objectives

Aqua America's executive compensation program is designed to motivate its senior executives to achieve the Company's goals of providing its customers with high quality, cost-effective, reliable water services and providing the Company's shareholders with a market-based return on their investment.

Toward that end, the program:

- o Provides compensation levels that are competitive with those provided by companies with which the Company may compete for executive talent.
- o Motivates key senior executives to achieve strategic business initiatives and rewards them for their achievement.
- o Creates a strong link between stockholder and financial performance and the compensation of the Company's senior executives.

In administering the executive compensation program, the Executive Compensation and Employee Benefits Committee (the "Committee") attempts to strike an appropriate balance among the above-mentioned objectives, each of which is discussed in greater detail below.

At present, the executive compensation program is comprised of three components: base salary, annual cash incentive opportunities and equity incentive opportunities. In determining the relative weighting of compensation components and the target level of compensation for the Company's executives, the Committee considers compensation programs of a peer group of companies. Because of the limited number of investor-owned water utilities from which comparable compensation data is available, the Committee utilizes survey data from a composite market ("Composite Market") compiled by a nationally recognized compensation consulting firm in assessing the competitiveness of the components of the Company's compensation program. The Composite Market for the base salary and annual cash incentive elements of the program consists of 25% water utilities, 25% other utilities and 50% general industrial businesses. There are ten water utilities in the water utilities portion of the Composite Market.

Due to continued consolidation in the investor-owned water utility industry, there are no publicly traded water utilities in the Composite Market that are of comparable size to the Company. Consequently, as of the proxy statement filed in 2000, the Company began using the Dow Jones Utility Index instead of the Edward Jones Water Utility Index as the peer group for the stock performance chart in the Company's proxy. None of the water utilities in the Composite Market is in the Dow Jones Utility Index.

Competitive compensation levels are targeted at the median of the third

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

quartile range of compensation levels in the Composite Market, except for equity incentives, which are targeted at the 50th percentile of the

26

compensation consulting firm's data base of general industrial organizations, including utilities, that have long-term incentive programs.

Compensation Components

Base Salary

To ensure that its pay levels are competitive, the Company, with the assistance of its compensation consultant, regularly compares its executive compensation levels with those of other companies and sets its salary structure in line with competitive data from the Composite Market. Individual salaries are considered for adjustment annually and any adjustments are based on general movement in external salary levels, individual performance, and changes in individual duties and responsibilities.

Cash Incentive Awards

The annual cash incentive plan is based on target incentive awards for each executive, which are stated as a percentage of their base salaries. Annual incentive awards for executive officers are calculated by a formula that multiplies the executive's target incentive percentage by a Company rating factor based on the Company's overall financial performance and an individual rating factor based on the executive's performance against established objectives. These factors can range from 0% to 125% for the Company rating factor and 0% to 150% for the individual rating factor. Each of these percentages are correlated with defined objectives and approved by the Committee each year. Regardless of the Company's financial performance, the Committee retains the authority to determine the final Company rating factor, and the actual payment and amount of any bonus is always subject to the discretion of the Committee.

Equity Incentives

As part of its review of the total compensation package for the Company's officers, the Committee, with the assistance of its compensation consulting firm, reviewed the Company's equity incentive compensation program. Given the importance of dividends to a utility investor, the consultant recommended using a combination of stock options with dividend equivalents to best link executive long-term incentives to corporate performance and shareholder interests.

Under the terms of the Company's 1994 Equity Compensation Plan, which was approved by the shareholders at the 1994 Annual Meeting, and the proposed 2004 Equity Compensation Plan, the Committee and the Board of Directors may grant stock options, dividend equivalents and restricted stock to officers, directors and key employees, and stock options to key consultants of the Company and its subsidiaries who are in a position to contribute materially to the successful operation of the business of the Company. The purpose of the Plan is to help align executive compensation with shareholder interests by providing the participants with a long-term equity interest in the Company. The Plan, we believe, provides the Company the ability to attract and retain employees of significant abilities.

27

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Summary of Actions Taken by the Committee

Salary Increase

Under the Company's salary program, the base salary budget is based on salary levels for comparable positions in the Composite Market. The projected overall annual increase is based on annual salary budget increase data reported by published surveys. Under these guidelines, actual salary increases are determined based on a combination of an assessment of the individual's performance and the individual's salary compared to the market. In the case of executive officers named in this Proxy Statement, the determination of salary levels is made by the Committee.

Mr. DeBenedictis' salary for 2003 was consistent with the target level for the CEO position within the Composite Market. Mr. DeBenedictis' salary for 2004, which was approved by the Board of Directors on February 3, 2004 and effective on April 1, 2004, is consistent with published salary survey information on salary levels and projected annual salary increases for 2004 and is based on the Committee's favorable assessment of his and the Company's performance.

Annual Incentive Award

At its February 2, 2004 meeting, the Committee determined the annual cash incentive awards to be made to the participants in the annual incentive plan. The awards were based on the Company's performance compared to its financial goal for 2003 as well as the participants' achievement of their individual objectives. Mr. DeBenedictis' annual incentive compensation for 2003 was based on the Company's earnings and the Committee's assessment of Mr. DeBenedictis' individual performance. Mr. DeBenedictis' achievements in 2003 included completing the AquaSource acquisition as well as 17 other smaller acquisitions and growth ventures, entering into an agreement to acquire Heater Utilities in North Carolina, improvements to the Company's customer service operations and continued cost containment.

28

Equity Incentives

In 2003, because there was a limited number of shares remaining in the Company's 1994 Equity Compensation Plan until the shareholders' approval of additional shares for the Plan at the 2003 Annual Meeting, the normal awards of stock options for the Company's executive officers were deferred until after the shareholders' approval of the additional shares for the Plan. Therefore, effective March 3, 2003, the Committee approved the 2003 grant of incentive stock options and dividend equivalents under the Company's 1994 Equity Compensation Plan to certain of its key employees, including the award of dividend equivalents for its executive officers, at the fair market value on the date of grant for such stock options of \$16.65 (adjusted for the effect of the Company's stock split in the form of a stock distribution to shareholders on December 1, 2003). Effective May 15, 2003, following the shareholders' approval of additional shares for the Company's 1994 Equity Compensation Plan, the Committee approved the 2003 grant of incentive options under the Plan to its executive officers at the fair market value on the date of grant of \$18.34 (adjusted for the effect of the Company's stock split in the form of a stock distribution to shareholders on December 1, 2003). Effective March 1, 2004, the Committee approved, under the Company's 1994 Equity Compensation Plan, grants of incentive stock options and dividend equivalents to certain key employees, including its executive officers, at the

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

fair market value of the Company's stock on the date of grant for such stock options of \$21.53. The options are exercisable in installments of one-third each year starting on the first anniversary of the date of grant and expire at the end of 10 years from the date of grant. The dividend equivalents will accumulate dividends over a period of four years. In 2003, Mr. DeBenedictis received a grant of 68,750 dividend equivalents on March 3, 2003 and 68,749 stock options on May 15, 2003. For 2004, Mr. DeBenedictis received a grant of 70,000 stock options and dividend equivalents on March 1, 2004. At its March 1, 2004 meeting, the Committee also approved management's recommendation to reduce the performance period for the dividend equivalents granted in 2002 and 2003 by one year based on the Company's performance against the 2003 measurement criteria established by the Committee for this purpose at its March 3, 2003 meeting. The measurement criteria involve targets for earnings per share, dividends, total return to shareholders over a five-year period and customer growth.

Pursuant to the 2004 Equity Compensation Plan, approved by the Executive Committee on behalf of the Board of Directors and subject to approval of the 2004 Equity Compensation Plan by the shareholders as set forth in Proposal No. 3 in the Company's Proxy Statement, the Committee may make grants of restricted stock, the vesting of which is subject to the achievement of specified performance criteria established by the Committee at the time of the grant. Under the terms of the 2004 Equity Compensation Plan, on March 19, 2004, the Committee awarded the following restricted stock grants, subject to approval of the 2004 Equity Compensation Plan by the shareholders at the 2004 Annual Meeting: (a) 10,000 shares to Mr. DeBenedictis with a one year Restricted Period; and (b) 6,000 shares to Mr. DeBenedictis, 5,500 shares to Mr. Stahl, 4,000 shares to Mr. Smeltzer and 1,000 shares to Mr. Riegler, in each case with a three-year Restricted Period, with one-third of each such grant subject to release to the grantee each year on the anniversary of the date of grant. Release of the restricted stock grants awarded by the Committee on March 19, 2004 are subject to the Company's achievement of performance criteria established by the Committee.

29

Section 162(m) of the Internal Revenue Code generally precludes the deduction for federal income tax purposes of more than \$1 million in compensation (including long-term incentives) paid to the Chief Executive Officer and the other officers named in the Summary Compensation Table in any one year, subject to certain specified exceptions. While Aqua America's executive compensation program is structured to be sensitive to the deductibility of compensation for federal income tax purposes, the program is principally designed to motivate senior executives to achieve the Company's goals. Therefore, the Company has determined that it is appropriate for the Chief Executive Officer's compensation to be at a level that a portion is not deductible for federal income tax purposes.

Respectfully submitted,

John F. McCaughan
G. Fred DiBona, Jr.
Alan R. Hirsig

The foregoing report of the Executive Compensation and Employee Benefits Committee shall not be deemed incorporated by reference by any general

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

30

SUMMARY COMPENSATION TABLE

The following Summary Compensation Table shows compensation paid by the Company for services rendered during the years 2003, 2002 and 2001 for the Company's Chief Executive Officer and the other four most highly compensated executive officers of the Company.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long Te
		Salary (\$) (1)	Bonus (\$) (2)	Other Annual Compen- sation (\$) (3)	----- Award
					Restricted Stock Award(s) (\$) (4)
Nicholas DeBenedictis	2003	350,358	312,851	6,000	203,125
CEO	2002	334,500	294,060	5,500	347,820
	2001	321,554	287,625	5,250	
Roy H. Stahl	2003	207,512	87,342	6,000	
Exec. V.P. &	2002	200,521	82,852	5,500	42,160
General Counsel	2001	193,546	79,596	5,250	
David P. Smeltzer	2003	178,265	70,559	5,348	
Sr. V.P.--Finance	2002	164,054	65,995	4,922	42,160
& CFO	2001	156,067	56,962	4,681	
Richard R. Riegler	2003	183,385	51,140	5,400	
Sr. V.P.--	2002	177,837	50,944	5,500	21,080
Engineering &	2001	171,658	51,154	5,148	
Environ. Affairs					
Richard D Hugus	2003	164,081	50,462	4,922	
President - Southern Operations (7)					

(1) Salary deferred at the discretion of the executive and contributed to the Company's Thrift Plan or Executive Deferral Plan is included in this column.

(2) Includes cash bonuses for services rendered during the specified year, regardless of when paid.

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

- (3) Company matching contributions under the Company's Thrift Plan and Executive Deferral Plan are included in this column.

31

- (4) Mr. DeBenedictis was awarded grants of the following shares of restricted stock under the Company's 1994 Equity Compensation Plan at the following fair market value of the shares based on the closing price on the New York Stock Exchange on the date indicated: 20,625 shares on June 17, 2002 at \$16.86 and 12,500 shares on March 3, 2003 at \$16.25. Of the restricted shares granted on June 17, 2002, 8,125 shares were released to Mr. DeBenedictis on March 17, 2003 and 12,500 shares were released to Mr. DeBenedictis on June 17, 2003. The restricted shares granted on March 3, 2003 were released to Mr. DeBenedictis on March 3, 2004. He is entitled to receive the dividends on the restricted shares pending their release. At year-end 2003, the value of the 12,500 shares still subject to restrictions was \$276,250 based on the closing price for the stock on December 31, 2003 of \$22.10.

On June 17, 2002 the following executives were awarded grants of restricted stock under the Company's 1994 Equity Compensation Plan: Mr. Stahl 2,500 shares; Mr. Smeltzer 2,500 shares and Mr. Riegler 1,250 shares. The fair market value of the shares awarded on June 17, 2002 was \$16.86 per share based on the closing price on the New York Stock Exchange on that date. These restricted stock grants were released on March 17, 2003 and the grantees were entitled to receive the dividends on the restricted shares pending their release.

- (5) Restricted stock and option award numbers for 2001, 2002 and 2003 have been restated to reflect the December 2001 and December 2003 5-for-4 stock splits in the form of stock distributions.
- (6) Includes: (a) for 2002 and 2001, the dollar value, on a term loan approach, of the benefit of the whole-life portion of the premiums for a split dollar life insurance policy on Mr. DeBenedictis maintained by the Company, projected on an actuarial basis; (b) for 2002 and 2001, Company payments on behalf of Mr. DeBenedictis to cover the premium attributable to the term life insurance portion of the split dollar life insurance policy; (c) the amounts accrued for the named executives' accounts in 2003 in connection with the dividend equivalent awards made from 1999 through 2003 (Messrs. DeBenedictis \$135,000, Stahl \$37,563, Smeltzer \$28,063, Riegler \$26,000, and Hugus \$26,000); (d) the value of group term life insurance maintained by the Company on the named executives (Messrs. DeBenedictis \$3,362, Stahl \$1,008, Smeltzer \$553, Riegler \$1,636 and Hugus \$790); and (e) above-market interest earned in 2003 on amounts deferred under the Company's Executive Deferral Plan (DeBenedictis \$111, Stahl \$3 and Hugus \$8). The Company will be reimbursed for the amount of the premiums paid under the split dollar program for Mr. DeBenedictis upon his death or repaid such premiums by Mr. DeBenedictis if he leaves the Company.
- (7) Mr. Hugus was elected by the Board of Directors as Regional President - Aqua America Southern Operations on August 5, 2003.

32

COMPARATIVE STOCK PERFORMANCE

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

The graph below compares the cumulative total shareholder return on the Common Stock of the Company for the last five years with the average cumulative total return of a peer group of companies and the cumulative total return on the S&P 500 over the same period, assuming a \$100 investment on December 31, 1998 and the reinvestment of all dividends. The Dow Jones Utility Index consists of the following companies: American Electric Power Company; Consolidated Edison, Inc.; NiSource Inc.; Exelon Corporation; TXU Corporation; Edison International; Public Service Enterprise Group Incorporated; Dominion Resources, Inc.; Williams Companies, Inc.; Duke Energy Corporation; PG&E Corporation; AES Corporation; The Southern Company, FirstEnergy Corp.; and CenterPoint Energy, Inc.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN AMONG AQUA AMERICA, S&P 500 AND DOW JONES UTILITY INDEX

2003					
	WTR		Dow Jones Utilities		S&P 500 Composite
1998	100.00	1998	100.00	1998	100.00
1999	72.18	1999	93.98	1999	121.00
2000	110.42	2000	141.68	2000	109.99
2001	130.21	2001	104.46	2001	96.90
2002	118.48	2002	80.04	2002	75.49
2003	162.32	2003	103.56	2003	97.13

The foregoing comparative stock performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

33

STOCK OPTION GRANTS IN 2003

The following table sets forth information concerning individual grants of stock options under the Company's 1994 Equity Compensation Plan during 2003 to each executive officer identified in the Summary Compensation Table who received options during the period.

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants			
		Number of Securities Underlying Options/SAR's Granted (#) (1)	Percent of Total Options/SAR's Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh) (2)
Name				Expir Da

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

N. DeBenedictis.....	68,749	11.20%	18.34	5/15/
R. Stahl.....	22,499	3.67%	18.34	5/15/
D. Smeltzer.....	15,624	2.55%	18.34	5/15/
R. Riegler.....	12,499	2.04%	18.34	5/15/
R. Hugus.....	12,499	2.04%	16.65	3/3/

- (1) The options listed in this column are intended to be qualified stock options granted at an exercise price equal to the fair market value of the Company's common stock on the date of grant under the Company's 1994 Equity Compensation Plan. Grants become exercisable in installments of one-third per year commencing on the first anniversary of the grant date. An equal number of dividend equivalents, with a four-year accumulation period, were awarded to the named individuals under the 1994 Equity Compensation Plan. The accrued value of the dividend equivalent awards for 1999 through 2003 is shown on the Summary Compensation Table.
- (2) The exercise price for options granted is equal to the mean of the high and low sale prices of the Company's common stock on the New York Stock Exchange composite tape on the date the option is granted. The option exercise price has been adjusted to reflect the impact of the December 1, 2003 5-for-4 stock split.
- (3) The values in this column were determined using Black-Scholes Option Pricing Model. The actual value of stock options, if any, that may be realized will depend on the difference between the exercise price and the market price on the date of exercise. The estimated values under the Black-Scholes model are based on assumptions as to such variables as interest rates, stock price volatility and dividend yield. The key assumptions used in the Black-Scholes model valuation of the stock options are (i) an assumed dividend yield of 2.6%, (ii) a risk free rate of return of 3.7%, (iii) volatility of 32.4%, (iv) an exercise date of 5.6 years from the date of grant, and (v) no reduction in values to reflect non-transferability or other restrictions on the options. These assumptions are not a forecast of future dividend yield, stock performance or volatility.

Stock Option Exercises in 2003 and Value of Options at Year-End 2003

The following table sets forth information concerning the number of stock options exercised under the Company's 1994 Equity Compensation Plan during 2003 by each executive officer listed below and the number and value of unexercised options as of December 31, 2003, indicating in each case the number and value of those options that were exercisable and unexercisable as of that date.

AGGREGATE OPTION EXERCISES IN LAST FISCAL YEAR
AND YEAR-END OPTION VALUES

Number of Securities
Underlying Unexercised

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Name -----	Shares Acquired on Exercise (#) -----	Value Realized(\$) -----	Options/SAR's at Fiscal Year-End (#) -----	
			Exercisable -----	Unexercisa -----
DeBenedictis	10,645	118,053	322,203	140,623
Stahl	--	--	116,860	45,312
Smeltzer	35,154	376,421	31,243	31,250
Hugus	--	--	30,203	26,041
Riegler	25,310	169,289	32,371	26,042

(1) Based on the average of the high and low price on the New York Stock Exchange - Composite Transactions of the Company's Common Stock on December 31, 2003 (\$22.21).

35

CERTAIN COMPENSATION PLANS

Retirement Plan

The Retirement Plan for Employees of the Company and certain of its subsidiaries (the "Retirement Plan") is a defined benefit pension plan. In general, the Retirement Plan applies to employees hired prior to certain dates in 2003 and the participants are eligible for normal pension benefits upon retirement at age 65 and are eligible for early retirement benefits upon retirement at age 55 with ten years of credited service. Under the terms of the Retirement Plan, a Company participant becomes fully vested in his or her accrued pension benefit after five years of credited service. Benefits payable to employees under the Retirement Plan are based upon "final average compensation", which is defined as the average cash compensation through the five highest consecutive years of the last ten full years preceding retirement.

The Employee Retirement Income Security Act of 1974, as amended, ("ERISA") imposes maximum limitations on the annual amount of pension benefits that may be paid under, and the amount of compensation that may be taken into account in calculating benefits under, a qualified, funded defined benefit pension plan such as the Retirement Plan. The Retirement Plan complies with these ERISA limitations. Effective December 1, 1989, the Board of Directors adopted an Excess Benefits Plan for Salaried Employees of the Company (the "Excess Plan"). The Excess Plan is a nonqualified pension benefit plan that is intended to provide an additional pension benefit to Company participants in the Retirement Plan and their beneficiaries whose benefits under the Retirement Plan are adversely affected by these ERISA limitations. In addition, deferred compensation is excluded from the Retirement Plan Compensation, but is included in the calculation of the Excess Benefits Plan. The benefit under the Excess Plan is equal to the difference between (i) the amount of the benefit the Company participant would have been entitled to under the Retirement Plan absent such ERISA limitations and including deferred compensation, and (ii) the amount of the benefit actually payable under the Retirement Plan.

The following tabulation shows the estimated annual pension payable pursuant to the Retirement Plan and the Excess Plan to Company employees, including employees who are directors or officers of the Company, upon retirement after selected periods of service. This table is provided for illustrative purposes only and does not reflect pension benefits presently due under the Retirement

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

Plan or Excess Plan.

PENSION PLAN TABLE

Average Salary During Five Years Preceding Retirement	Estimated Annual Pension Based on Service of				
	15 Years	20 Years	25 Years	30 Years	35 Years
\$100,000	\$ 24,300	32,500	40,600	43,100	45,600
125,000	31,100	41,500	51,800	54,900	58,100
150,000	37,800	50,500	63,100	66,800	70,600
175,000	44,600	59,500	74,300	78,700	83,100
200,000	51,300	68,500	85,600	90,600	95,600
225,000	58,100	77,500	96,800	102,400	108,100
250,000	64,800	86,500	108,100	114,300	120,600
300,000	78,300	104,500	130,600	138,100	145,600
350,000	91,800	122,500	153,100	161,800	170,600
400,000	105,300	140,500	175,600	185,600	195,600
450,000	118,800	158,500	198,100	209,300	220,600
500,000	132,300	176,500	220,600	233,100	245,600

36

The Company's contributions to the Retirement Plan are computed on the basis of straight life annuities. The following executive officers listed in the Summary Compensation Table have the indicated number of completed years of service under the Retirement Plan, and would, upon retirement at age 65 on March 31, 2004, be entitled to a pension based on the remuneration level listed in the following table:

Name	Completed Covered Remuneration	Years of Credited Service
Nicholas DeBenedictis	\$688,672	12
Roy H. Stahl	\$280,020	22
Richard R. Riegler	\$242,222	34
David P. Smeltzer	\$224,608	17
Richard D. Hugus	\$219,052	15

A Supplemental Executive Retirement Plan or SERP has been established for Mr. DeBenedictis. This Plan, which is nonqualified and unfunded, was approved by the Board of Directors in 1992 and is intended to provide Mr. DeBenedictis with a total retirement benefit, in combination with the Retirement Plan and Excess Plan, that is commensurate with the retirement benefits for the chief executive officers of other companies. Under the terms of the SERP, Mr. DeBenedictis will be eligible to receive a benefit at normal retirement equal to the difference between (i) the benefit to which he would otherwise be

Edgar Filing: AQUA AMERICA INC - Form DEF 14A

entitled under the Retirement Plan assuming he had 25 years of service and absent the ERISA limitations referred to above, and (ii) the benefit payable to him under the Retirement Plan and the Excess Plan. Under the terms of Mr. DeBenedictis' SERP, if his employment is terminated for any reason prior to age 65, he is entitled to receive a supplemental retirement benefit equal to the difference between (i) the benefit to which he would otherwise be entitled under the Retirement Plan assuming he was credited with two years of service for each of his first seven years of credited service and (ii) the benefit payable to him under the Retirement Plan and the Excess Plan. If Mr. DeBenedictis retires from the Company at age 65, the SERP is projected to provide an annual benefit of \$111,501.

CODE OF ETHICS

The Company maintains a Code of Ethical Business Conduct for its directors, officers and employees, including the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer as required under Section 406(a) of the Sarbanes-Oxley Act of 2002. The Code covers a number of important subjects, including: conflicts of interest; corporate opportunities; fair dealing; confidentiality; protection and proper use of Company assets; compliance with laws, rules and regulations (including insider trading laws); and encouraging the reporting of illegal or unethical behavior. Copies of the Company's Code of Ethical Business Conduct can be obtained free of charge from the Corporate Governance portion of the Investor Relations section of the Company's website - www.aquaamerica.com or by contacting the Company at the address appearing on the first page of this Proxy Statement, attention Investor Relations Department. The Company intends to post amendments to or waivers from the Code of Ethical Business Conduct (to the extent applicable to the Company's executive officers, senior financial officers or directors) on its web site.

37

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Employment Contracts and Termination of Employment and Change of Control Arrangements

Under the terms of Mr. DeBenedictis' employment arrangement, if his employment is terminated by the Company for any reason other than his disability, death or for cause, he will be entitled to receive a severance payment equal to twelve months of his base compensation paid in twelve equal monthly installments without offset. In the event that the employment of any of the executive officers named in the Summary Compensation Table set forth above is terminated, actually or constructively, within two years following a change of control of the Company, the executive officers will be entitled to certain payments and benefits under agreements with the Company. Under the terms of these agreements, the Chief Executive Officer will be entitled to three times his average annual compensation and the other executive officers will be entitled to two times their average annual compensation, plus certain benefits for a period of three years for the Chief Executive Officer and two years for the other executive officers. The agreement with the Chief Executive Officer also provides for reimbursement to him for the tax effects of certain payments and the transfer to him of a split dollar life insurance policy maintained by the Company on his life. Under the terms of the 1994 Equity Compensation Plan approved by the shareholders, outstanding stock options will become immediately exercisable, accrued dividend equivalents will become immediately payable and the restrictions on